

## **APPENDIX A-3**

A-3      MFSA Pricing Policy Affidavit Summary

***Mountain States Transmission Intertie  
MFSA Application***

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## APPENDIX A-3

### ARM 17.20.817 Linear Facilities, Pricing Policy

Paragraph	Subject Matter	Response
(1)	An application for a linear facility must contain a discussion of how the product or transportation services provided by the facility will be priced or how the costs of the facility will be recovered. Distinction should be made between pricing according to market value, and the use of rolled-in pricing, average cost pricing, or any other cost-based pricing method. This rule does not apply to transmission lines that recover costs through overall energy charges or similar methods.	<b>Northwestern</b>  NorthWestern will operate the MSTI under a separate OATT that meets all requirements of Order No. 888 and Order 889 in that it provides for non-discriminatory, open-access to the MSTI project for all eligible customers. PTP service using the MSTI project will be provided under Part II of the MSTI-separate OATT and the rates for MSTI PTP service will be separately stated in Schedules 7 and 8 of that OATT. In this way, PTP service using NorthWestern's existing facilities and PTP service using the MSTI project will be provided under separate OATT's sections and schedules. Attached is a summary of the Affidavit that NorthWestern will file with a pleading to FERC in the fall of 2008.



## **MSTI FERC Tariff Development Tariff Pricing Alternative Summary**

### **Background and Purpose**

1. NWE engaged CRA International
2. Affidavit being developed – eventual pleading to FERC
3. Seeking tariff pricing alternatives for MSTI
4. Requesting authority to provide transmission service at cost based rates that includes certain incentives under Order 679
5. Allow multiple rates based on varying subscription levels and contract lengths
6. Provide for customers to share development costs through CIAC

### **Current Status – Affidavit Summary**

1. Request pricing flexibility based on FERC's 10 "Merchant Line" criteria even though MSTI will be cost of service facility
  - Assumption of Market Risk, Open-Access Transmission Tariff, Secondary Transmission Rights, Open Season, Open Season Report, Affiliate Concerns, Access to Essential Facilities, Market Monitoring, Reliability Requirements, Pre-existing Property Rights
2. Pricing of the MSTI Project
  - a. Request for Incentive Rates under Order 679
    - Must improve reliability or reduce congestion
    - Project must be developed under regional planning process and have state siting approval
    - Requesting package of incentives – higher ROE, Single-issue ratemaking treatment, others as appropriate to recognize higher risk project
  - b. Request for Pricing Flexibility
    - Allow cost-based rates that reflect term of firm transmission reservations
    - Allow full cost recovery if MSTI not fully subscribed
    - Allow customer development cost sharing CIAC
  - c. Pricing to Reflect Term of Service
    - Authority to develop cost-based rates that are lower for longer terms of service and higher for shorter terms
    - Rates levelized over number of years in customers requested reservation



- Proposing this rate design to make project more attractive to customers
- d. Pricing for Full Cost Recovery
- Flexibility to develop cost-based rates on less than 100% subscription if MSTI not fully subscribed
  - Sliding ROE incentive based on subscription level
  - Allows cost recovery with and without full subscription
- e. Pricing to Include CIAC
- Customers share financial risk of developing the project
  - Scope of contributions based on NWE's development cost
  - Customer pro rata sharing methodology
  - Payments used to reduce NWE rate base, thereby reducing customer rates, or returned to customers as credits against future service
  - CIAC non-refundable if project is not successful

